

## Message Text

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PAGE 01 TEGUCI 00008 022032Z

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E.O. 11652: N/A

TAGS: EINV, EMIN, HO

SUBJ: IMPACT OF NEW TAXES ON AMERICAN-OWNED MINING INVESTMENT

REF: TEGUCIGALPA 5314

1. ANALYTICAL DATA IN SUPPORT OF THE ROSARIO RESOURCES CORPORATION (RRC) POSITION THAT THE COMPANY WOULD BE FORCED TO CEASE OPERATIONS IN THREE TO FOUR YEARS HAS BEEN PROVIDED TO THE EMBASSY. THE ANALYSIS APPLIES TO THE REQUIREMENTS OF THE HONDURAN TAX LAW CONTAINED IN DECREE 287 OF DECEMBER 8. WITH THE COMPANY OPERATIONS UTILIZING CONSERVATIVE ESTIMATES OF PRICE, THE COMPANY ANALYSIS DETERMINES THAT ECONOMICALLY RECOVERABLE ARE UNDER THE NEW TAX LAW WOULD BE EXHAUSTED IN TWO OR THREE YEARS.

2. RRC, AFTER NOTING THE NECESSITY OF THE GOVERNMENT FOR TAX INCOME, SUGGESTS THE ALTERNATIVE OF AN INCREASE IN INCOME TAX TO BE LEVIED AGAINST THE COMPANY RATHER THAN THE FORMULA OF INDIRECT TAXES IN ROYALTY IN EXPORT TAX FROM CONTAINED IN THE NEW TAX LAW.

3. REPORTEDLY, THE MINISTER OF NATURAL RESOURCES IN CONCERT WITH THE MINISTER OF FINANCE HAS NAMED HIS GROUP OF TECHNICAL PERSONS TO ANALYZE THE CONTENTIONS OF RRC.

COMMENT: THE EMBASSY WILL FOLLOW UP WITH A DISCUSSION WITH THE MINISTER OF NATURAL RESOURCES AT THE SOONEST OPPORTUNITY. PRESENTLY, WE VIEW THE TAX LAW AS ONE MORE IN A SERIES OF GOH  
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PAGE 02 TEGUCI 00008 022032Z

ACTIONS WHICH HAVE UNNECESSARILY CREATED PROBLEMS IN THE ECONOMY.

THE GENERALITY OF THE GOH PROCESS IS TO WRITE A LAW WITHOUT CONSULTATION WITH THE AFFECTED PARTIES, PASS THE LAW, THEN FIND OUT THAT CERTAIN ASPECTS ARE UNWORKABLE. THE NEXT STAGE IS TO ATTEMPT TO FIND LOOPHOLES OR ADMINISTRATIVELY INTERPRET THE LAW SO AS TO MINIMIZE THE DAMAGE ON THE AFFECTED SECTOR WITHOUT CHANGING THE LAW. IN THE CASE OF MINING, IT REMAINS TO BE SEEN WHETHER AN ACCOMMODATION CAN BE REACHED BETWEEN THE GOVERNMENT AND RRC WHICH WILL PERMIT FUTURE PRODUCTION TO CONTINUE.  
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